

If the Chancellor is to avoid hailing a false dawn when growth does return, he needs to get beyond talk of 'recovery' in the abstract and look at the conditions that helped raise living standards during previous decades of growth

Blog Admin

It is fairly widely assumed that the outcome of the next election will pivot on the strength – or otherwise – of Britain's economic recovery. [James Plunkett](#) from the Resolution Foundation considers the kind of recovery that we should be seeking, noting that as things stand there is little reason to believe that a return to growth would mean anything other than a return to wage stagnation and rising personal debt that we saw from 2003 to 2008.



What kind of recovery are we seeking? The perceived wisdom suggests that the key figure to look out for is strong and sustained GDP growth. Other stats – like those for household spending released recently – are pored over mainly for what they tell us about when growth will return.

National GDP growth might be necessary for a recovery in the living standards of Britain's households, but is it sufficient? [Gavin Kelly](#) argued back in March that it might not be. Put simply, the old formula that says "growth equals gains in living standards for ordinary workers" just doesn't seem to be working as well as it used to.

The Resolution Foundation have released a [new report](#) that adds significant weight to that argument. It raises the question of whether the UK will follow the path of other countries – such as the US, Canada and, more recently, Germany – in which people on or below median wages have failed to benefit from growth. The UK experience prior to the 2008 recession was not encouraging. From 2003 to 2008, wages were already flat-lining. In the same period, disposable income per head fell in every English region outside London.

That all suggests that the Chancellor's political prospects depend on much more than just what happens to GDP. Based on OBR projections, median wages will be no higher in 2015 than they were in 2001. Part of this poor performance is explained by the temporary impact of high inflation but it also stems from trends prior to the recession. As yet, it's not at all clear that anything has happened to shift the economy from those pre-recession tramlines: top-earners pulling away from the rest, and median earnings failing to keep up with GDP.

So if the Chancellor is to avoid hailing a false dawn when growth does return, he needs to get beyond talk of 'recovery' in the abstract, to look at the conditions that helped raise living standards during previous decades of growth. Take the long-term rise of female participation in the jobs market and the move towards dual-earning households. In recent years, this growth has been trailing off, and the prospects for future increases have just got bleaker. The government's intention to reduce [childcare support](#), a crucial factor for low-to-middle income women in deciding whether to work, will make full-time work less of an option for millions of mothers. By the end of the Parliament, it might be cuts like these – that don't just cause short-term rows about reduced services, but also long-term reductions in living standards – that the coalition most regrets.

Debt too will be important. As we know all too well, the five years of wage-stagnation from 2003 to 2008 were also characterised by a dramatic rise of personal debt, enabling households to prop up their living standards. Most economists expect debt to be run down in the coming years, with low-to-middle income households either unable or less willing to borrow to the same degree. (Indeed, [it is surprising](#) that the OBR is arguing that personal debt will continue to increase for the rest of the Parliament). The move to a more sustainable credit market may bring stability, but it also means the end of another pillar of rising spending power in recent years.

In terms of the national economic debate, this all means that we'd be well-advised to look beyond GDP growth as a test of our economic health. Better tests of the political and economic weather may be measures of the living standards of ordinary workers: median wage growth, household disposable income, the affordability of a basket of essential goods. It's not until green shoots can be seen in these areas that we can

breathe a sigh of relief. As things stand, there's a little reason to believe that a return to growth would mean anything other than a return to the kind of growth we saw from 2003 to 2008. That will not be enough.

This article first appeared on the [Resolution Foundation's blog](#) on 27 May 2011.